

New Issue: Moody's assigns Aaa to State of Vermont's \$111M Series 2014 General Obligation Bonds

Global Credit Research - 06 Nov 2014

Approximately \$559 million in general obligation debt outstanding

VERMONT (STATE OF)
State Governments (including Puerto Rico and US Territories)
VT

Moody's Rating

ISSUE	RATING
General Obligation Bonds 2014 Series A	Aaa
Sale Amount	\$25,000,000
Expected Sale Date	11/17/14
Rating Description	General Obligation
General Obligation Bonds 2014 Series B	Aaa
Sale Amount	\$50,000,000
Expected Sale Date	11/17/14
Rating Description	General Obligation
General Obligation Refunding Bonds 2014 Series C	Aaa
Sale Amount	\$36,000,000
Expected Sale Date	11/17/14
Rating Description	General Obligation

Moody's Outlook STA

Opinion

NEW YORK, November 06, 2014 --Moody's Investors Service has assigned a Aaa rating to the State of Vermont's \$111 million General Obligation Bonds 2014, consisting of Series A (\$25 million), Series B (\$50 million), and Series C Refunding (\$36 million). Proceeds of the Series 2014 A and B bonds will be used to fund various capital projects around the state, the Series 2014 C proceeds are being used to refund outstanding GO bonds for debt service savings. The bonds are expected to sell the week of November 17th. The outlook is stable.

SUMMARY RATINGS RATIONALE

Moody's highest rating level reflects Vermont's strong history of financial management, which includes conservative fiscal policies and the maintenance of healthy reserve balances that continue to provide a cushion against any unexpected revenue declines; and manageable debt profile that reflects the state's focused efforts to reduce its debt ratios and maintain well-funded pension systems.

Credit strengths are:

*History of strong financial management and fiscal policies indicated by conservative budgeting practices.

*History of prompt action to reduce spending following revenue weakening.

*Maintenance of budget reserve levels at statutory limit.

*Steady progress in reducing previously high debt ratios and maintaining an affordable debt profile.

Credit challenges are:

*Potential service pressures due to a population that is aging at a relatively rapid pace.

*Decline in job growth.

DETAILED CREDIT DISCUSSION

SECURITY FOR THE BONDS

The bonds are general obligations of the State, secured by the full faith and credit of the State to pay principal and interest on the bonds.

REVENUE WEAKNESS FISCAL 2014 STILL LINGERS IN FISCAL 2015

Fiscal 2014 revenues of \$1.32 billion came in 0.32% (\$4.3 million) under forecast. Vermont experienced underperformance in most of its main tax categories, with personal income tax showing the largest source of weakness. Like most other states, Vermont experienced a decline PIT performance due to the lingering impacts of the 2012 federal fiscal cliff accelerating capital gains revenue into fiscal year 2013. Personal income tax receipts provide roughly 50% of the state's general fund revenue. The state was able to address the small revenue shortfall with transfers from other funds.

In planning for the current fiscal 2015 budget the state passed a \$1.39 billion general fund budget based on the January 2014 consensus revenue forecast. After weaker than expected tax revenue performance in the last part of fiscal 2014, the state adjusted its forecast down by \$28 million to \$1.36 billion. The adjusted fiscal 2015 general fund budget reflects an increase of 2% over fiscal 2014 revenues. Year to date revenue performance through the first quarter of FY 2015 is running below target by 1.2%. While PIT performance remains muted, corporate income tax and sales and use tax receipts are coming in stronger than expected. Looking ahead to the remainder of fiscal 2015, the state is maintaining a conservative revenue outlook while economic and fiscal uncertainty remain. We expect the state to move quickly to resolve any potential shortfalls in revenue performance.

ECONOMIC AND FISCAL UNCERTAINTY BALANCED BY STATE'S TREND OF PROACTIVE FINANCIAL MANAGEMENT

While Vermont moved quickly to address budget deficits during the recession, it could still face challenges in its out-year budgets. As in many states, persistent weakness in the global and national economy and political uncertainty at the national level could pose a threat to a strong economic recovery for the state. The governor has been proactive in managing out year costs. During the downturn, the state also increased the frequency of its revenue forecasting, which traditionally was performed on a semi-annual basis. From January 2008 to January 2010, Vermont published quarterly economic and revenue forecasts which enabled the state to identify and provide solutions for any sudden revenue declines. Moody's expects that, like other Aaa-rated states, Vermont will continue its trend of conservative financial management and aggressive approach to dealing with budget shortfalls to manage its current fiscal challenges.

BUDGET RESERVE LEVELS MAINTAINED AT STATUTORY FUNDING LEVELS OF 5%

Vermont avoided using any of its fully funded budget stabilization reserve funds (BSR) during the recession. At the end of fiscal 2013, Vermont's General Fund BSR was \$66.16 million which reflects the statutorily required funding level of 5% of prior year budgetary appropriations, a level that has been maintained since 2004. Vermont also maintains a fully funded Transportation Fund BSR, also at 5% of prior year appropriations (\$11.5 million), and the Education Fund BSR at the statutory required level of 3.5% to 5% of prior year expenditures (\$30.34 million). Vermont expects to maintain its budget stabilization reserves at the statutory level through the end of fiscal 2015. During the 2012 legislative session, the state established an additional reserve fund, the General Fund Balance Reserve (GFBR). After satisfying the funding requirements for the General Fund BSR and other statutory reserves, any unreserved undesignated General Fund surplus at the end of the year will be placed in the new GFBR. The GFBR has a balance of \$5 million, as of June 30, 2014. In total, the state has approximately \$123 million (9% of total operating funds) to mitigate revenue fluctuations that may occur.

EMPLOYMENT GROWTH OUTPACES THE NATIONAL GROWTH RATE

Continuous job growth in education and health services, Vermont's largest employment sector, has helped offset persistent weakness in other areas of the economy, primarily manufacturing and construction. Vermont never fully recovered manufacturing job losses from the prior economic recession in 2001-2002, and so far the state has recovered about 80% of the payroll jobs lost during the 2007-2010 economic recession. On a year-over-year basis through August 2014, the state has experienced 1.8% growth in private sector jobs, led by the professional and business services sector. According to Moody's Analytics, 2014 full year employment growth is expected to be 1.2%, followed by 2.0% in 2015. The state's unemployment level, which has historically been low, rose rapidly during 2009 but has since stabilized at 4.4% (September 2014) versus 5.9% for the nation. One of the states largest private employers IBM recently sold its operations to Global Foundries which includes infrastructure and a workforce of approximately 4,000. Global foundries is a semi-conductor company and will focus on manufacturing semi-conductor chips in Vermont.

DEBT RATIOS ARE LOWER THAN THE U.S. MEDIANS

Vermont's debt levels have declined considerably over the past decade and are now below average relative to Moody's 2014 50-state median, on both a per capita and personal income basis. Debt per capita of \$878, compared to the state median of \$1,054, ranked Vermont 30th among the fifty states. Debt to total personal income of 2.0%, compared to the 2.6% state median ranked Vermont 34th. Both ratios represent steady improvement in Vermont's debt profile, reflecting efforts by the state's Capital Debt Affordability Advisory Committee which oversees long-term capital planning for the state.

Vermont's overall pension funding levels have historically been strong relative to other states. Due to the broad based market losses experienced in 2008, the state's two pension systems have seen a decline in funding ratios, particularly in 2009. Based on Vermont's fiscal 2012 pension data, we have calculated that the overall retirement systems' adjusted net pension liability (ANPL) was \$3.9 billion, 80% of state governmental revenues, above the 50-state median of 63.9%. Other pension ratios such as ANPL to personal income, GDP, and population are similarly slightly above the median. The state has taken steps to address the liability, since 2012 Vermont has appropriated contributions in excess of the ARC to each of its main retirement systems. Approximately \$37.2 million in excess was appropriated to the state employees retirement system and \$14.1 million in excess was appropriated for the teachers retirement system since 2012.

As of June 30, 2014 Vermont's assessment of its other post employment benefit (OPEB) liability reflects \$1.07 billion for state employees and \$766.7 million for teachers. The state has not decided on a funding mechanism for either of the OPEB liabilities, however they have set up an irrevocable trust fund for the state employees to initially be funded with excess revenues from Medicaid part D reimbursements. As of June 30, 2014 this trust fund held \$18.9 million of assets.

Outlook

The outlook for Vermont's general obligation debt is stable. Moody's expects that the state will continue its trend of proactive and conservative fiscal management in light of slower economic recovery. We believe that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

What could make the rating go - DOWN

- *A break from the state's history of conservative fiscal management.

- *Emergence of ongoing structurally imbalanced budgets.

- *Depletion of budget reserves without swift replenishment.

- *Liquidity strain resulting in multiyear cash flow borrowing

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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